STC
The Bus Company

ANNUAL REPORT

On the right road

STC
The Bus Company

Corporate Mandate

The Saskatchewan Transportation Company is a Crown Corporation of the province of Saskatchewan. It was established by Government Order In Council in 1946. Its operations are governed by its Board of Directors, under the authority of *The Crown Corporations Act, 1993*.

STC is a provincial coach company which provides safe, affordable and accessible bus passenger and freight service to Saskatchewan communities.

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Letter of Transmittal

Regina, Saskatchewan
March 31, 2005

To Her Honour
The Honourable Dr. L. M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madame:

I have the honour to submit herewith the annual report of the Saskatchewan Transportation Company (STC) for the year ended December 31, 2004, in accordance with *The Crown Corporations Act, 1993*. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madame,
Your obedient servant,

Maynard Sonntag

Maynard Sonntag,
Minister Responsible for the Saskatchewan
Transportation Company

Report of the Chair of the Board

Janet Folk, Chair of the Board

In 2004, the Board of Directors of the Saskatchewan Transportation Company launched the company on something of a voyage of self-discovery. The end result, as the year has drawn to a close, is that I feel comfortable in saying the company is on the right road.

It's a hard, old fact that the public transportation sector is not doing well anywhere in North America at this time. Whether it is airlines closing or seeking bankruptcy protection, or trains and/or buses cutting back on their service routes, making ends meet has become harder and harder to do for people movers.

At the same time, there is still a definite demand for all forms of public transportation. Passenger levels may decline, but there are still millions of people in this country alone who use public transportation service every year. The challenge, then, is to make sure that you can survive the downturns in your business so that you are able to meet the transportation needs of all these people.

This is particularly prevalent in the intercity bus business, which has seen a steady erosion in its passenger base right across the continent for more than a decade now.

It was in this context that the Board felt we needed to do a full examination of STC's goals and objectives, as well as the public perceptions of the company, in order to find ways of shoring up our customer base.

We did research by public opinion polling and focus groups. We surveyed our customers. We re-examined our vision and mission. We challenged Management of the company to bring forward some ideas to address this slippage of customer base.

I'm not going to report an unqualified success. But I am going to report progress.

Report of the Chair of the Board

In 2004, we saw our passenger base decrease by 0.33 per cent, compared to 2.61 per cent in 2003 and 7.40 per cent in 2002. A small recovery, you might say, but a recovery nonetheless.

In the latter part of the year, we took steps to improve our customers' level of comfort and satisfaction with both our coaches and our depots, and we did some targeted advertising to convince students, Seniors, and those traveling for medical purposes that STC is an affordable option for them to consider.

The end-of-year results would indicate that these measures have met with some level of success. Although it is true that one year does not constitute a trend, I do believe STC is on the right road.

The Board approved a strategic business plan for 2005 which will continue to build on some of those actions taken in 2004, and to incorporate new strategies as well. Through a combination of improving our facilities and services, and promotion of what we have to offer travelers, we believe the company can, at the very least, slow the slippage of passengers.

We know from our research that there are things we must do. We must make sure that our fares stay competitive, and that we have in place a set of discounts and programs which will attract comparison shoppers.

We know we must ensure that our customers are always treated in a professional and courteous manner, and that we are doing all we can to make their trips as enjoyable as possible.

We must ensure that our coaches are, at all times, clean and comfortable.

And we must ensure that our customers feel safe and comfortable in and around our depots and agencies.

While dealing with these undertakings, however, STC still must remember two fundamental things – it exists primarily as a service to the people of Saskatchewan, to ensure that the transportation needs of those people can be met; and it exists as a Crown corporation of the province, and as such has a responsibility for first class economic stewardship.

That adds up to a lot of jobs that must be done. But, if STC is to survive and thrive, it must make those commitments. In 2004, the company made a good start, and has put in place plans to continue in that direction.

As I said, STC is on the right road. The challenge to the company is to stay on that road, and to see it through.

Janet Folk

Janet Folk,
Chair of the Board

Governance, Compliance and Accountability

The Board of Directors of the Saskatchewan Transportation Company believes the company, as a Crown corporation of the Government of Saskatchewan, owes a duty to taxpayers to demonstrate that STC is open, accountable and properly managed.

To that end, this Annual Report follows "best practices" as outlined by such agencies as the Conference Board of Canada and the Toronto Stock Exchange in disclosing relevant information. This report meets or exceeds all the requirements for disclosure as set out for Saskatchewan Crown corporations by the Crown Investments Corporation of Saskatchewan.

In this section, the responsibilities of the Board of Directors are laid out, along with a comparison of the Board's actions to those required by private companies listed on the TSX.

Board of Directors

Janet Folk, Chair, Regina, Pensions and Benefits Manager, City of Regina, **unrelated**

Holly Ann Knott, QC, Vice Chair, Saskatoon, Lawyer, **unrelated**

Cecile DeBray, Member, Duck Lake, Manager, Saskatchewan Housing Authority, **unrelated**

Wally Sotski, Member, Yorkton, Business President, **unrelated**

Wayne Timoffee, Member, Prince Albert, Funeral Director, **unrelated**

Leo Weaver, Member, Regina, Motor Coach Operator, STC, ATU representative, **related**

Garry Pearce, Member, Regina, Chartered Accountant, **unrelated**

Shauna Young, Member, Moose Jaw, Staffing Consultant, Public Service Commission, Youth Member, **unrelated**

Objectives and Principal Duties

1. The function of the Board of Directors is to act as stewards of the Corporation. The Board has a statutory authority and obligation to manage the affairs

Seated l. to r.: Wayne Timoffee, Janet Folk, Chair, Garry Pearce. Standing l. to r. Holly Ann Knott, Vice Chair, Cecile DeBray, Leo Weaver, Ray Clayton, President and CEO, Wally Sotski, Shauna Young, Dawn Stanger, Corporate Secretary.

and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, Corporate plans and management performance.

2. In discharging its obligations, the Board's principal duties are:

a) to provide leadership in setting the Corporation's long range strategic direction, and to approve the Corporation's overall strategic plan, operating goals, operating budget, performance indicators and the business plans established to achieve them;

b) to participate with management in identifying the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and potential returns to oversee the implementation of appropriate systems to manage the risks;

c) to appoint, monitor and evaluate the performance of the President and CEO, taking appropriate action as warranted, and to provide for effective succession planning;

d) to adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public;

e) to ensure the integrity of the Corporation's internal control and management information systems; and

f) to develop practices to ensure that the Board functions independently of management.

Legal and Compliance Responsibilities

1. The Board has a responsibility to see that procedures are in place to ensure statutory responsibilities are met, that an effective Corporate compliance program has been established, and that Corporate documents and records are properly prepared, approved and maintained.

Audit and Finance Committee

1. Composition

The committee is made up of four Directors of the corporation, with Garry Pearce as Chair. The other members are Janet Folk, Holly Ann Knott and Wally Sotski. The committee is appointed annually by a resolution of the Board.

2. Objectives

The Committee shall be advisory to the Board and in such capacity shall:

a) oversee the financial management of STC to ensure the integrity of internal financial processes;

b) provide relevant and timely financial information to the Board; and

c) oversee the appointment of the external auditor and ensure proper follow up of audit results.

Planning, Priorities and Governance Committee

1. Composition

The committee is made up of four Directors of the corporation, with Wayne Timoffee as Chair. The other members are Cecile DeBray, Leo Weaver and Shauna Young. Chair Janet Folk is ex-officio. The committee is appointed annually by a resolution of the Board.

2. Objectives

The Committee shall be advisory to the Board and in such capacity shall:

a) be responsible for, and report to the Board concerning the corporate governance processes of the Board, and the strategic planning processes of the Corporation;

b) oversee the Corporation's human resource strategies, programs and practices; and

c) ensure the Corporation is proactive in addressing safety, health and environment issues and is in compliance with all statutory requirements.

TSX Corporate Governance Guidelines	Board Responsibility & Action	2004 Compliance Board Item #
Part 1: The Board should explicitly assume responsibility for the stewardship of the Corporation, specifically for:	*Note: all Board Items referred to are on file at STC's corporate head office, 2041 Hamilton Street, Regina, Sask. S4P 2E2*	
1. Adoption of a strategic planning process.	Reviewed by PP&G, adopted by Board	04-32; 04-58
2. Identification of the principal risks of the Corporation's business and ensuring the implementation of an appropriate system to manage these risks.	Reviewed by PP&G, adopted by Board	04-70; 04-58
3. Succession Planning, including appointing, training and monitoring senior management.	Reviewed by PP&G, adopted by Board	in place
4. A communications policy for the Corporation.	Reviewed by PP&G, adopted by Board	04-58
5. The integrity of the Corporation's internal control and management information systems.	Reviewed by A&F, adopted by Board	04-69
Part 2: The Board of Directors of every Corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e.: one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Directors' ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding).	Seven of eight are unrelated directors (see Terms of Reference)	in place
Part 3: Disclosure of significant shareholders (ability to exercise a majority of votes to elect Directors).	N/A; Crown corporation without private shareholding	
Part 4: The Board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the Director is related or unrelated.	See Board listing, terms of reference	in place
Part 5: The Board of Directors of every Corporation should appoint a committee of Directors composed exclusively of outside Directors (non management) the majority of whom are unrelated Directors, with responsibility to propose to the full Board new nominees to the Board and for assessing Directors on an ongoing basis.	Ad-Hoc Committee all outside, non-related Directors	Not required in 2004

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Continued

TSX Corporate Governance Guidelines	Board Responsibility & Action	2004 Compliance Board Item #
Part 6: Every Board of Directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual Directors.	Reviewed by PP&G, adopted by Board	04-18; 04-61
Part 7: Every Corporation, as an integral element of the process for appointing new Directors, should provide an orientation and education program for new recruits to the Board.	Board training provided by CIC; corporate orientation provided by Management	
Part 8: Every Board of Directors should examine its size and, with the view to determining the impact of the number on effectiveness, undertake where appropriate, a program to reduce the number of Directors to a number which facilitates more effective decision-making.	Responsibility of PP&G Committee	
Part 9: The Board of Directors should review the adequacy and form of the compensation of Directors to ensure the compensation realistically reflects to responsibilities and risk involved in being an effective Director.	Compensation rates set by CIC	
Part 10: 1 A committee should generally be composed of non-management Directors.	No management member of Board	
2. The majority of committee members should be unrelated.	A&F Committees has no related directors; one of four on PP&G committee is related director	
Part 11: Every Board of Directors should expressly assume responsibility for, or assign to a committee of Directors, the general responsibility for developing the Corporation's approach to governance issues. This committee would, amongst other things, be responsible for the Corporation's response to these guidelines.	PP&G reviews, Board approves	in place

TSX Corporate Governance Guidelines	Board Responsibility & Action	2004 Compliance Board Item #
Part 12: 1. The Board of Directors, along with the CEO, should develop position descriptions for the Board and for the CEO involving the definition of the limits to management responsibilities.	Board approves	Not applicable in 2004
2. The Board should provide or develop the Corporation's objectives which the CEO is responsible for meeting.	PP&G committee reviews; Board approves	04-58
Part 13: Every Board of Directors should have in place appropriate structures and procedures to ensure that the Board can function independently from management.	Board Terms of Reference	in place
Part 14: The audit committee of every Board should be composed of only outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communications channels with the external and internal auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an active system of controls.	No inside or related directors on A&F; Terms of Reference sets out duties	in place
Part 15: The Board of Directors should implement a system which enables the individual Director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of the appropriate committee of the Board.	Board Terms of Reference	in place

2004 Corporate Profile

- **Established 1946 by Order-In Council; has operated continuously**
- **Serves 275 communities in Saskatchewan**
- **Operates 28 bus routes, travelling more than 3.1 million miles per year**
- **Has a fleet of 43 coaches and vans, varying in size from 55-seater to 15-seater, as well as a freight truck and freight trailers**
- **Has 197 agents operating in rural Saskatchewan**
- **Operates passenger and express depots in Regina, Saskatoon and Prince Albert**
- **Operates service garages in Regina and Saskatoon**
- **Maintains its Head Office in Regina**
- **Employs 233 people (187 full-time, 42 part-time and four temporary); 209 employees are in-scope, 24 employees out-of-scope. In-scope employees are represented by the Amalgamated Transit Union, Local 1374**
- **Has an annual payroll of $8.8 million**
- **Has assets of $19.3 million (2003 – $18.3 million)**
- **Operating expenditures of $18.4 million (2003 – $18.2 million); Revenues of $13.6 million (2003 – $13.6 million)**
- **Capital expenditures of $2.3 million (2003 – $2.3 million)**

Company Facilities:

STC owns and operates passenger and freight depots in Regina, Saskatoon, and Prince Albert. It owns and operates service garages in Regina and Saskatoon. It owns a bus storage facility in Meadow Lake and owns, but does not operate, a passenger and freight terminal in Moose Jaw.

The Saskatoon depot is approximately 30 years old, and the express shed is 27 years old. Regular insurance inspections ensure the facilities are kept in sound structural order. Some maintenance work was done on the facility in 2004; no major maintenance or structural work is planned for the facility in 2005.

The Regina depot is approximately 52 years old, and the express shed is 29 years old. Both are in need of significant structural and maintenance work, and were under a thorough review in 2004. That review is ongoing in 2005.

The Saskatoon garage is 22 years old. Only minor maintenance was done to it in 2004, and nothing major is anticipated in 2005. Regular insurance inspections ensure the facility is kept in sound structural order.

The Regina garage is 56 years old, with major additions done in 1975 and 1989. It was subject to structural repairs in 2004. There are no plans for major structural or maintenance work in 2005. Regular insurance inspections ensure the facility is kept in sound structural order.

The Prince Albert depot is 10 years old. Regular insurance inspections ensure the facility is kept in sound structural order. No major structural or maintenance work was done in 2004, and none is planned for 2005.

The Moose Jaw depot is nine years old. Regular insurance inspections ensure the facility is kept in sound structural order. No major structural or maintenance work was done in 2004, and none is planned for 2005.

The Meadow Lake storage shed is approximately 35 years old. No major structural or maintenance work was done in 2004, and none is planned for 2005.

Passenger Services:

This unit is responsible for all aspects of ensuring STC's passengers enjoy a safe and reliable trip. Within this unit are the Motor Coach Operators, Passenger Services Attendants and Custodians, making it STC's largest employee complement. The rural agencies provide services to this unit as well.

Express Services:

This unit is responsible for freight and baggage handling for STC and connector buses, with staff in all three depots. It delivers and receives freight to and from customers. Pick Up and Delivery services are available in Regina, Saskatoon and Prince Albert as well as some rural agencies.

Maintenance:

The primary responsibility of this unit is the maintenance, cleaning and storage of all company vehicles, which is done in service garages in Saskatoon and Regina. It is responsible for on-the-road servicing of coaches, when required. This unit also provides maintenance, cleaning and storage to coaches of other carriers, done on a contract basis.

Finance:

This unit is responsible for the collection of revenues from customers and the payment of STC's suppliers. It has sub-units for billing, accounts receivable and collections, accounts payable, agencies, and reclaims (billing and paying connecting carriers, such as Greyhound, for services rendered). It is responsible for the company's budgeting, financial forecasting, corporate insurance and internal controls.

Information Systems:

This unit is responsible for the procurement of all corporate hardware and software. It ensures the reliability and integrity of data, electronic communications, software applications and web services to provide staff, customers and partners throughout the province with current, up-to-date computer systems and information.

Human Resources:

This unit handles all staff recruitment and placement, co-ordinates training, and administers compensation and benefit programs. It negotiates the Collective Bargaining Agreement and administers contract compliance between the company and the union. It is responsible for Occupational Health and Safety, anti-harassment programs, employment equity programs, accessibility programs, return to work programs and employee assistance programs.

Strategic Planning and Communications:

This unit is responsible for corporate communications, internally and externally. It is responsible for the preparation of corporate documents such as the Annual Report and Strategic Business Plan. It liaises with other Crowns and government agencies. It is responsible for forward planning and issues management for the company.

Report of the President

Ray Clayton, President and CEO

A lot of things have to happen in a given year to keep any company "on the right road".

You have to ensure that you are providing a product that people want; you have to ensure that you are meeting the needs of your customers; and you have to ensure that you are doing it in a cost-effective manner.

Looking back at 2004, we are comfortable that, at STC, we did all we could in all three areas. Not everyone in a province the size of Saskatchewan is going to use public transportation. Most people do prefer to use private automobiles to travel.

Nonetheless, we did, in 2004, carry 257,996 passengers over 3.1 million miles, to and from 275 communities in the province.

In addition, we also carried approximately two million pieces of freight, mostly to rural communities, over the course of the year.

For those people who do use our service, we are giving them what they need. Year after year, our passenger surveys show our overall satisfaction range to be in the high 70 per cent to low 80 per cent range with our customers.

In terms of being cost-effective, it is true that we are subsidized in our operations, as is almost every other public transportation operator in Canada.

However, it is interesting to note that, to offset operating expenditures (before depreciation) of about $16 million, our subsidy amounted to $3.7 million, or about 23 per cent. For the same year, 2004, the Toronto Transit Commission was projecting it would receive 93 per cent of its operating costs through subsidies and Via Rail was to receive 60 per cent of its operating costs from the Federal government.

Closer to home, the City of Regina targets 65 per cent of its transit revenues in municipal grants, while the City of Saskatoon has a target of 50 per cent. On a comparative basis, that would make STC very cost-effective.

However, it's not good enough for a company to concentrate only on its strengths. To say that you are on the right road, you must also recognize your weaknesses, and deal with them.

In 2004, STC spent a lot of time working on those areas where we feel we must improve if we are to be the intercity bus and freight transportation company the people of Saskatchewan want and deserve.

We conducted extensive research during the year into what people want a bus company to look like and where we fit on that spectrum. Overall, we are a pretty good fit in terms of what people are looking for, but there are weaknesses, both real and perceived, that we have been working on and must continue to work on.

We found that people questioned whether the service we provide is affordable. By the simple method of comparison, we are affordable. Our fares are about three per cent below the Western Canadian average for intercity bus fares.

But that's only one aspect of affordability. Another is the system of discounts used to attract, and keep, customers. While STC has a system of discounts in place, we found that few people are familiar with them. That is a matter of promotion that STC began to address during the year through targeted advertising. It will continue in this regard in 2005. As well, we will be conducting a full review of our fare and discount system to determine if there are improvements to be made to it.

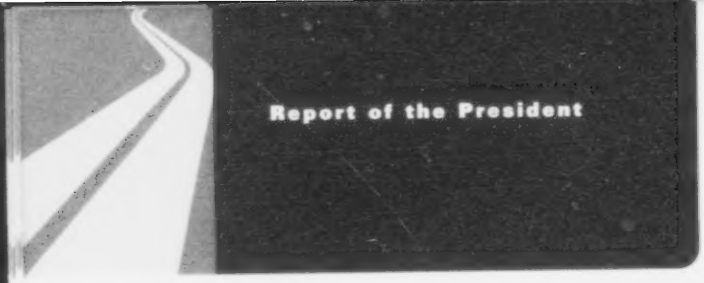
Another area of concern our research picked up was the level of professional customer service provided by our staff. In customer satisfaction surveys, we have traditionally scored quite well in the area of customer service. But there is room for improvement. We want to work towards a target where "STC" and "Quality Customer Service" are synonymous. To that end, we are looking to put in place improved customer service training and policies in 2005.

Our coaches and their comfort was another issue raised. Over the past five years, STC has been very active in addressing one of the concerns, that we have too many big buses which are mostly empty traveling up and down highways. Since 1999, the company has been "right-sizing" its fleet so that smaller vehicles are now used on routes which have low peak demands.

A highway bus, like any other mass transportation equipment, has limitations as to what can be done to make it more comfortable. But what can be done, we have either done or will be doing. This includes installing arm and foot rests, more audio-visual equipment, tables on some coaches, as well as change stations for infants. And we have made a commitment to ensure our coaches meet an even higher level of cleanliness than in the past.

We received a number of comments regarding our depots and agencies, particularly in regards to the Regina facilities. Generally, the comments dealt with cleanliness and safety. STC is taking steps to address both those issues.

The Regina facility, however, poses problems of its own. Along with customer complaints about the facility, we have other serious issues. The depot has failed to meet the accessibility code of the Canadian Human Rights Commission in a number of areas. As well, there are building code issues which must be



Report of the President

addressed and it is too small to accommodate staff needs.

As a result, a lot of time in 2004 was spent looking at options for either refurbishing or replacing the Regina depot, and an action plan in this regard will be sent to our Board of Directors for approval in the first quarter of 2005. From there, it will be reviewed by the holding company, the Crown Investments Corporation, as well as the Executive Council of government.

STC hopes to be able to take positive steps in 2005 to address both the regulatory shortcomings of our depot and the areas of concern as pointed out by our customers and the general public.

It should be noted that our research did identify one problem with our service that we have no intention of correcting. Many people feel we make too many stops in small communities, and that is a hindrance to their trip.

We recognize that point. However, if STC is to continue to provide the best possible service to Saskatchewan, we are going to have to ensure that those small rural communities are still serviced. A bus company that served only Regina, Saskatoon and Prince Albert would be more convenient for those people, and more cost effective for the government, but you could hardly call it a provincial bus company.

Because we are controlled by the changing economy of rural Saskatchewan, and the shifting demographics of the province, finances continue to be a challenge to STC. But we continue to do a very good job of managing our finances, to ensure that the people of Saskatchewan get the best possible service at the lowest possible cost.

Overall, our revenues for 2004 increased slightly from the previous year, $13,646,000, compared to $13,580,000, while our expenditures increased to $18,378,000 from $18,158,000. Our loss for the year was $4,732,000, up from $4,578,000 the previous year.

For the second straight year, STC attempted to contain costs without having to reduce the miles it operates. During 2004, passenger fares increased by 3.2 per cent.

STC continues to see increases in revenues from its charter services. Our 2004 revenues in this area rose to $425,401 from $273,779 the previous year. This represented a profit to the company of $127,620. It is likely that our revenues could have been higher, but STC does not actively compete against the private sector for charter business. We do not advertise for it, nor do we purchase extra equipment or additional staff to handle the business. We only take a charter contract if we can commit to it using existing resources.

This year, STC received an operating grant of $3.7 million and a capital grant of $1.9 million. This compares to $1.6 million and $1.9 million, respectively, in 2003. The 2003 operating grant was significantly lower because the company had approximately $600,000 in approved but unspent grant money from prior years.

We at STC would like to think that our company is moving in the direction of being the best run, most cost effective passenger bus service in North America, an asset to the province, and a service the people of Saskatchewan can be proud of. We may not be all the way there yet, but we are most definately on the right road.

Ray Clayton,
President and CEO

Statement of Mission

STC offers our customers convenient, affordable, safe, courteous and reliable passenger and express transportation services. We contribute to the province's economic growth, demonstrate social responsibility to its citizens and provide excellent value to our shareholders.

Vision Statement

We are Saskatchewan's standard for transporting people and goods. STC is your first choice, your best choice.

Corporate Values

We at STC believe that we can only do our job properly when we adhere to the following values:

- Honesty in all business transactions, in dealing with our staff, in dealing with our customers and in dealing with our stakeholders
- Dependability, not only in our vehicle operations, but in all facets of the company's work
- Ensuring the safety of our customers and our employees
- Never accepting the status quo as the best possible outcome for our stakeholders; searching for innovative solutions to the problems which arise and taking pride in our accomplishments, while admitting to our mistakes
- Developing a work environment which supports employment equity and offers opportunity for advancement to all employees
- Meeting all targets within our work units and within our corporation

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Management Discussion and Analysis

In this MD&A, STC Management will discuss trends in the transportation bus industry in Canada, and will look at the company's three main components – passenger service, freight operations and maintenance – in regards to their operating and financial highlights for the year, the challenges which they faced, how they dealt with them, the challenges and opportunities down the road, and the outlook for future operations. Other facets of the company's operations will be discussed as well.

Industry Overview

One has only to look at the passenger transportation industry throughout Canada, and indeed throughout North America, to see that it is a challenged industry, primarily in regard to finances.

During 2004, STC operated at a loss of $4,732,000 and received an operating grant from its holding company, the Crown Investments Corporation of Saskatchewan (CIC), in the amount of $3.7 million. The total grant amounted to 27 per cent of the company's revenues for the year.

While that is a substantial amount, it should be viewed in context with the transportation industry as a whole.

Terry Lamond
Custodian
25 years of service

The Toronto Transit Commission, which operates municipal bus and subway service in metropolitan Toronto, is the largest carrier of passengers in Canada. In 2004, it anticipated expenses of $242 million, which were to be offset by a subsidy from the City of Toronto of $225 million, or 93 per cent of its total operating expenses.

Greater Ontario ("GO") Transit operates trains and buses in the southern commercial core of Ontario. It was operated until a few years ago by the municipalities it serviced, but was taken over by the Province of Ontario, which supplied it with $304 million in operating grants in 2004.

ViaRail, which operates a trans-Canada passenger rail service, had operating costs of $431.4 million in 2003, of which $263.5 million, or 61 per cent, was made up by grants from the Government of Canada.

Greyhound Coachlines in the United States is that country's largest provider of bus passenger service. According to its filings with the Securities Exchange Commission (SEC), it lost $22.8 million in its first three quarters of 2004. Despite the fact Greyhound service receives subsidies from both the federal and state governments in the U.S., it had to cut more than 10 million operating miles out of its system during the year.

Greyhound's Canadian operations were able to keep their revenues for the year close to 2003 numbers. However, the company reports the two primary reasons for this were service cutbacks, and the strength of the Canadian dollar against its American counterpart.

Closer to home, the Saskatoon Transit service received subsidies of $11.7 million from the city last year. The city has a policy that up to 50 per cent of its bus operations can be covered by way of subsidy.

Operating Expenditures ($000 s)

In Regina, transit operations received a subsidy from the city of $11 million. City policy is that up to 65 per cent of operating costs can be covered by subsidy.

In 2004, the municipal transit system in Prince Albert expected a subsidy of $470,000 from the city, and in Moose Jaw, the 2003 subsidy was $866,000.

This doesn't even take into account the number of airline companies which have gone into bankruptcy or receivership in the past two years.

For each of the industries facing financial challenge, the reasons are the same: high cost of equipment, high cost of fuel, employee costs and declining passenger revenues.

The issue of declining passengers is most prevalent in the bus industry in North America, where the decline in passengers has been at or about four per cent per year for the past decade. Fewer people are using intercity buses for two major reasons – rural depopulation and the growth of private automobile ownership. Those reasons remain as true for Saskatchewan as for any other jurisdiction in North America.

In 2004, STC did considerable research into what people in Saskatchewan want in a bus company, how STC measures up, and what steps the company can take to increase its ridership. As a result of that research, the company took some steps in 2004, and will take more in 2005, to address the concerns raised by its customers and the public in general.

And, although you cannot call one year a trend, in 2004, STC passenger numbers dropped by only 845, the smallest drop in 15 years.

Passenger Services

STC has, far and away, the bulk of the bus passenger business in Saskatchewan.

Greyhound runs two routes through the province (along the TransCanada Highway and along the Yellowhead Highway), and there are a number of small, locally-based carriers, serving only specific areas, which inter-line with STC service at the company's depots.

The company runs 28 routes in the province. The viability of those routes varies, as

Lavina Rieger
Human Resources Advisor
19 years of service

Management Discussion and Analysis

In this MD&A, STC Management will discuss trends in the transportation bus industry in Canada, and will look at the company's three main components – passenger service, freight operations and maintenance – in regards to their operating and financial highlights for the year, the challenges which they faced, how they dealt with them, the challenges and opportunities down the road, and the outlook for future operations. Other facets of the company's operations will be discussed as well.

Industry Overview

One has only to look at the passenger transportation industry throughout Canada, and indeed throughout North America, to see that it is a challenged industry, primarily in regard to finances.

During 2004, STC operated at a loss of $4,732,000 and received an operating grant from its holding company, the Crown Investments Corporation of Saskatchewan (CIC), in the amount of $3.7 million. The total grant amounted to 27 per cent of the company's revenues for the year.

While that is a substantial amount, it should be viewed in context with the transportation industry as a whole.

Terry Lamond
Custodian
25 years of service

The Toronto Transit Commission, which operates municipal bus and subway service in metropolitan Toronto, is the largest carrier of passengers in Canada. In 2004, it anticipated expenses of $242 million, which were to be offset by a subsidy from the City of Toronto of $225 million, or 93 per cent of its total operating expenses.

Greater Ontario ("GO") Transit operates trains and buses in the southern commercial core of Ontario. It was operated until a few years ago by the municipalities it serviced, but was taken over by the Province of Ontario, which supplied it with $304 million in operating grants in 2004.

ViaRail, which operates a trans-Canada passenger rail service, had operating costs of $431.4 million in 2003, of which $263.5 million, or 61 per cent, was made up by grants from the Government of Canada.

Greyhound Coachlines in the United States is that country's largest provider of bus passenger service. According to its filings with the Securities Exchange Commission (SEC), it lost $22.8 million in its first three quarters of 2004. Despite the fact Greyhound service receives subsidies from both the federal and state governments in the U.S., it had to cut more than 10 million operating miles out of its system during the year.

Greyhound's Canadian operations were able to keep their revenues for the year close to 2003 numbers. However, the company reports the two primary reasons for this were service cutbacks, and the strength of the Canadian dollar against its American counterpart.

Closer to home, the Saskatoon Transit service received subsidies of $11.2 million from the city last year. The city has a policy that up to 50 per cent of its bus operations can be covered by way of subsidy.

Operating Expenditures ($000's)

In Regina, transit operations received a subsidy from the city of $11 million. City policy is that up to 65 per cent of operating costs can be covered by subsidy.

In 2004, the municipal transit system in Prince Albert expected a subsidy of $470,000 from the city, and in Moose Jaw, the 2003 subsidy was $866,000.

This doesn't even take into account the number of airline companies which have gone into bankruptcy or receivership in the past two years.

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Lavina Rieger
Human Resources Advisor
19 years of service

does, to a lesser degree, the equipment used by STC to service them. The smallest unit currently operated by STC is a 15-seat van, and the largest is a 55-seat coach.

In 2004, STC received a capital grant of $1.9 million from its stakeholder, the Crown Investments Corporation of Saskatchewan. Of that money, about 73 per cent was designated for the purchase of new buses and freight trailers. As well, the company received an operating grant of $3.7 million to help subsidize the cost of running unprofitable routes.

In 2004, STC operated more than 3.1 million miles of bus service in the province, providing connections to 275 communities. It carried 257,996 passengers.

The company's cost per mile of carrying passengers was $3.11, and the revenue per mile generated by passengers was $2.09. This represents a per-mile subsidy of $1.02.

There were no significant changes made to STC's scheduled service in 2004.

In 2004, STC's revenues from passenger service were $6,682,000, compared to $6,408,000 the previous year. Its operating expenses were $9,958,000, compared to $9,761,000 in 2003.

In 2004, STC increased its passenger fares by 3.2 per cent.

STC's strengths in the passenger industry are two – that it is the only bus operator in a large portion of the province, and its name recognition.

Its major weakness lies in the changing demographics of the province, which results in a shrinking potential marketplace. This is a major contributing factor to the ongoing decline in ridership.

Opportunities for the company in the bus passenger industry are limited, as the market for this service will likely continue to shrink or, at best, be stagnant. However, STC will continue to examine partnerships with other industries and other sources of revenue to try and pick up the shortfall.

As well, the company has undertaken an awareness campaign aimed at specific market niches in an effort to preserve, and perhaps grow, its client base.

An ongoing threat to the company's passenger operations lies in the province's changing demographics. Continued urbanization, reliance on private automobiles, and the existence of an extensive highway system will only further erode the company's client base.

A major threat facing the passenger service remains the possibility of deregulation of the intercity bus industry in Canada. Should bus service be deregulated, companies like STC will be "cherrypicked", which means it would be facing competition for customers on its profitable routes, while still having to service the non-profitable routes.

STC's passenger operations account for 84 full-time in-scope and 12 part-time, in-scope employees.

Jennifer Tanton
Senior Accounting Clerk
27 years of service

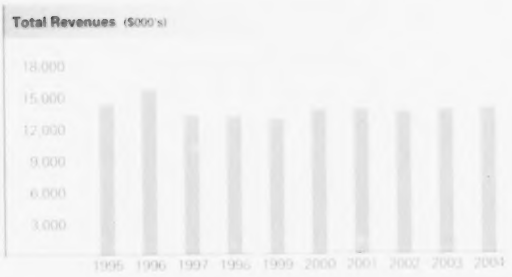
Parcel Express Services

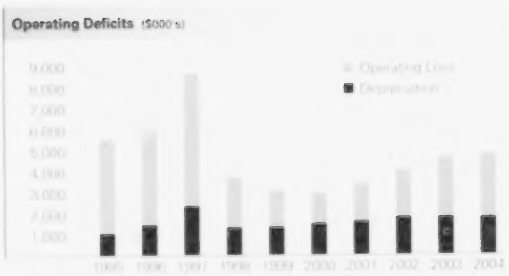
STC operates its freight business in a fully-competitive environment. Other bus services, trucking firms and courier services, as well as Canada Post all offer this service in the province.

In addition to providing overnight depot-to-depot service (in most cases), the company also provides a door-to-door pick up and delivery service in the major centers.

Since its inception, STC has been in the freight hauling business, and will continue to be as long as it is operating buses. The buses have the capacity to carry freight as well as passengers, so it makes sense to do so.

In many rural communities in Saskatchewan, STC has long been the primary carrier of parcels for personal, business, and farm usage.





STC has continued to equip some of its buses with trailers to carry additional freight, which allows the company to increase its hauling capacity and revenue-generating capabilities with only a minimal effect on expenditures.

Freight operations at STC garnered $6,403,000 in revenues for 2004, compared to $6,577,000 in 2003. Expenditures were $4,414,000, compared to $4,207,000 the previous year. That meant a profit of $1,989,000 compared to $2,370,000 the previous year.

Due to the extremely competitive nature of the freight business, STC does not have a lot of room within its tariff schedule for any significant increases. There were no increases in freight tariffs in 2004.

STC's greatest strength in the freight business is the synergies it has with the passenger service. That is to say that, since the buses are running on a large network anyway, with room to carry freight, any additional over-the-road costs to the company for carrying freight are minimal. With the addition of trailers to the buses, this becomes even more of an advantage.

Other strengths of the company are name recognition, and its ability to provide next day delivery throughout much of the province. As well, it is one of the very few delivery systems in the province which provides weekend service to many points in Saskatchewan.

STC is very well suited for the transportation of parcels in the one pound to 30-pound range, which makes up approximately 80 per cent of its freight business. A lot of this is the result of walk-in, rather than regular, customers.

Its major weakness is that it is difficult for freight tariffs to keep current with increasing costs. While STC rates are still somewhat below Western

Parcel Express Services

Total Revenues ($000's)

Operating Deficits ($000's)

Canadian averages for bus parcel express service, some firms have been offering deep discounts to attract some major customers away from STC. STC is formulating its response to these circumstances.

Increasing rates is not a sustainable method for the company to increase revenues. The competitive nature of the express business now fully dictates STC's express rates, and is currently keeping those rates low. Any sharp increases could result in a loss of market share.

The main threat to STC's express service is deep discount pricing by competitors, which is sometimes difficult for STC to match because of its fixed costs – mostly labour. Another threat, as with the passenger service, is the volatile cost of fuel.

The freight component of the business has 36 full-time in-scope and 22 part-time, as well as two temporary, in-scope employees.

Maintenance Services

STC operates two service garages in the province, one in Saskatoon and one in Regina. Since 2003, major maintenance work has been consolidated in the Saskatoon garage. The Regina facility still performs minor maintenance and servicing, as well as safety inspections.

Traditionally, STC coaches have had a very high standard of maintenance, both in terms of mechanical reliability and cleanliness.

Because of the size of its facilities and the level of service provided, STC performs maintenance service for a number of other bus operators in the province.

In 2004, maintenance services cost the company $2,185,000 compared to $2,230,000 in 2003. Performing service for other operators brought in $531,000 in revenues, compared to $537,000 in the previous year.

STC's maintenance strength is its staff, with their commitment to safety and quality work. Another area

Harold Pierce
Motor Coach Operator
26 years of service

of strength is the homogenous nature of its fleet, which allows for improved training and streamlining of the parts inventory.

Its weakness in this area is the need, because of the geographic size of the province, to operate two facilities rather than one. As well, although the age of the fleet is declining steadily, it is still a relatively older fleet.

Threats and opportunities for the maintenance operation are both related to its ability to contract its service to private operators. The threat is, because of limited staff, STC will not be able to do as much business in this area as in past years. The opportunity is that there will always be as much as the staff can handle, so long as the company maintains its reputation for reliability.

The maintenance operation has 26 full-time in-scope and eight part-time as well as two temporary, in-scope staff.

Other Issues

Other Revenues

STC, because of the nature of the passenger bus industry in North America, has limited room for growth in its primary lines of business – passenger and express services. So the company is always looking for other ways by which to grow its revenue base.

One of these options is providing maintenance, cleaning and storage services to other bus companies. While this has been a lucrative venture for the company, limitations in staff and facility availability makes it a finite area of endeavor.

One area where there has been noticeable growth in "other" revenues is with the operation of charters. STC does not compete with privately-owned companies for charter business. It does not currently advertise the service, and it has neither coaches nor employees designated for charters. However, if somebody approaches the company with the offer of charter work, and if there is a coach and driver available, the company will take the contract.

As a result of word-of-mouth promotion by satisfied clients, STC has seen a steady growth in its charter business. In 2004, the company fulfilled 342 charters, bringing in revenues of $425,401, compared to revenues of $273,779 the previous year. This resulted in profits of $127,620.

The company also leases out excess space, primarily at the Saskatoon garage and Saskatoon depot. In 2004, this activity accounted for revenues of $99,000.

The company is also in the field of bus advertising, which began in 1999. In 2004, revenues raised through bus advertising amounted to $58,270, compared to $76,208 the previous year.

In 2001, STC installed vending devices, specifically automatic banking machines, in its depots as another method of gaining revenues. The

Jeremy Nicholson
Passenger Services Attendant
nine years of service

Management Discussion and Analysis

Regina Facilities

Other Facilities

Total Employees

Environmental Impact

revenues from this source amounted to $12,000, the same as the previous year.

Regina Facilities

In 2002, the company received the results of a facility audit conducted by the Canadian Human Rights Commission as part of an overall audit of the company's compliance with the *Employment Equity Act*. This audit found a number of significant deficiencies with the company's passenger depot in Regina, including such things as a lack of an elevator, and wheelchair accessible washrooms.

In order to bring the building up to the standards of the Act, significant changes are required.

At the same time, the age of the company's Regina garage facility was starting to have a negative impact on the company's insurance rates and coverage.

Because of these two factors, it was determined in 2003 that STC would have to extensively renovate, or replace, its Regina facilities. Since that time, engineering studies were undertaken to determine the actions and costs involved in a major renovation of the facilities. At the same time, an architectural study into the cost of a new structure, plus a search for a possible location, were undertaken. STC will be taking a proposal and recommendation before its board and the board of its holding company, CIC, in the first quarter of 2005.

Bus lane grading at the Regina depot cost approximately $36,000 during 2004.

Other Facilities

As well as the Regina depot and express operations, STC has a garage in Regina, a garage in Saskatoon, a storage shed in Meadow Lake and depots and express operations in Saskatoon, Prince Albert and Moose Jaw. All facilities receive regular insurance inspections. The Regina garage needed structural work in 2004 to bring it up to insurance specs, at a cost of $28,000. In Saskatoon, new counters were installed at the depot at a cost of $119,000. There were no other significant maintenance issues with STC facilities during the year.

Total Employees

Environmental Impact

As a transportation company, STC's primary impact on the environment can be seen in any of three places – the consumption of fossil fuels, the storage of such fuels, and the handling of hazardous materials.

STC has in place an approved dangerous goods handling policy and its fuel storage is up to Code.

In terms of fuel consumption, the company has been rebuilding its fleet over the past six years with newer, more fuel efficient coaches. As well, STC is studying alternative fuel sources, and intends to launch a pilot project using bio-diesel additives in 2006.

In 2004, STC was in compliance with all relevant environmental statutes and regulations.

Financial Status

STC is subsidized by grant funding for its operations with respect to passenger services. The company remains debt free.

Capital grants received from Crown Investments Corporation of Saskatchewan (CIC) in 2004 were $1.9 million, the same as the previous year. About $1.3 million of the capital grant received in 2004 was allocated to purchase fleet assets. It is anticipated that STC will require $1.7 million in capital grants in the year 2005.

In 2004, STC received $3.7 million in operating grants from CIC to fund part of its operating losses with respect to passenger operations. The remaining funds needed to operate STC's passenger services are generated internally from the non-passenger operations.

The operating grant for 2004 was more than the previous year because, in 2003, STC had approximately $600,000 in approved but unspent grant money on the books. This $600,000, along with the $1.6 million in operating grant, was applied against the company's operating shortfall for that year.

STC anticipates that it will require $4.1 million in the year 2005, in operating grants.

The Finance department has 14 full-time in-scope employees and no part-time in-scope employees.

STC continues to incur yearly net cash losses. As a result, STC did not pay a dividend to CIC in 2004, and does not expect to pay one in 2005.

Public Policy and Financial Integration

The Saskatchewan Transportation Company is a Crown corporation of the Province of Saskatchewan, under the auspices of the Crown Investments Corporation of Saskatchewan, the province's holding company.

The CIC Board of Directors, who are all members of the Executive Council of Government, represents the interests of the ultimate stakeholders, the people of Saskatchewan. A Member of Executive Council has responsibility directly to the public for the operations of STC and sits on the CIC Board of Directors.

CIC, in consultation with the Crowns, has developed a long-term strategic plan and a method of evaluation.

STC is in full support of both the strategic objectives and of the evaluation methodology used by CIC. The company feels this is the best method available to not only ensure that it is meeting its social obligations to the people of Saskatchewan, but is also as transparent as it can be in terms of where it is and where it is going as a corporation.

The strategic plan sets out five objectives for a Crown corporation that are to be part of its business and strategic planning. The five objectives are:

1. **Customer:**
   - *To exceed customer expectations for products and services.*
2. **Financial Health:**
   - *To help position the entire Crown sector to prosper.*
   - *To provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector.*
3. **Mandate and Role:**
   - *To incorporate the Crown sector's mission into each corporation's mandate and role.*
   - *To strive to balance accountability with each corporation's need to operate in a commercially competitive environment.*
4. **Public Purpose:**
   - *To strive to ensure access to reasonably and competitively priced sector products and services on an equitable basis that might not otherwise be available to all or some of Saskatchewan's residents.*
   - *To contribute to social, economic and environmental public policies of the Government of Saskatchewan, including: economic diversification and growth; representative workforces; skills training and development; technical innovation and development and environmental responsibility and stewardship.*
5. **Human Resources:**
   - *To align human resources processes and practices to best deal with emerging sector wide issues and to support achievement of individual Crown corporation strategies.*

Financial Integrity – The First Consideration

A Saskatchewan Crown corporation is, by definition, a business entity. It provides a service, for which it charges a fee. This is as true with STC as it is with any of the other CIC Crowns.

As a business, a primary concern of STC has to be its financial integrity. The corporation must ensure that the shareholders – the people of Saskatchewan – are getting the best possible value for the money invested.

In most business operations, this is measured by return on investment. In the case of Saskatchewan's Crown corporations, this is found in the dividend paid to the holding company, CIC, by the various Crowns.

STC is an obvious exception to this. As the company does not make a profit, but rather, receives a subsidy, it cannot pay dividends. Because the corporation is seen as a valued contributor to Saskatchewan society, its continued success is not judged solely on financial performance.

The indicators of STC's financial integrity are, therefore, different from most other Crowns. It is evaluated on the amount of subsidy it receives (Is this kept as low as possible?) and by the value it gets for the money injected into its operation (Are taxpayers getting their money's worth for the subsidy they pay? Is STC spending the money prudently?).

Public Policy – The Second Consideration

As the Government of Saskatchewan defines a Crown corporation, it must be more than just a successful business endeavor; it must also serve a purpose in enhancing the quality of life in the province in a number of areas.

These areas are many and varied, including, but not limited to: providing a public service which would not otherwise be available; providing a necessary service at the lowest possible cost to the consumer; providing employment and employment training opportunities; providing employment equity opportunities; promoting the growth of local businesses and the economy; promoting safe and harmonious workplaces; promoting technological awareness in the workforce; and providing stewardship of the environment.

In essence, then, the corporation must not allow bottom line considerations to outweigh these other important aspects.

Each corporation, depending on such factors as its line of business and its competitive outlook, will take a different approach to attaining public policy goals.

STC, because of its financial constraints, is more challenged than other Crowns in terms of meeting its public policy purpose, but must comply with the overall direction nonetheless.

Integration

Integration of these two important aspects of a Crown's business is through the **Performance Management Document**, a contract drawn up each year by the Crown, in consultation with CIC.

This Performance Management Document forms the foundation on which a Crown corporation builds its annual strategic plan and annual business plan. In essence, the corporation designs its operations towards the fulfillment of the Performance Management Document.

The heart and soul of the Performance Management Document is the **Balanced Scorecard**, a reporting technique used to evaluate the Crown's planning process and its success in moving toward the goals it has set out.

This Balanced Scorecard, divided into quadrants, sets out a general purpose, plus specific targets in moving a corporation to that purpose, and the specific measuring devices to judge the corporation's success in its actions.

STC's Balanced Scorecard for 2004, including year-end results, is set out below.

We meet the needs of our customers

Objective	Measure	2004 Target	2004 Actual
Our customers are satisfied with the service they receive	Survey results	83% good or excellent rating	75%
We ensure our customers enjoy a safe environment	At-fault injuries caused	0	0
Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better	83%
	Compared to Western Canadian industry average	Below average	2.6% below average
Our staff and partners are trained to provide good quality customer service	Customer service training – *number of staff trained:*	50	CBA negotiations in progress
	Increase in customer satisfaction – survey	1%	8% decrease
	Agency meetings - *number of agents met with:*	40	39
Our routes serve a significant portion of rural Saskatchewan	Miles traveled	3.1 M	3.2 M
All of our customers deserve the most comfortable ride possible	Coaches equipped for wheelchair accessibility – *percentage of fleet:*	21.4%	20.9%

We are a good corporate citizen

Objective	Measure	2004 Target	2004 Actual
We support development of the Saskatchewan economy, particularly rural economy	Minimum number of agents	195	197
	Minimum number of Communities served	275	275
	Buy Saskatchewan – *percentage of expenditures:*	70%	76%
We support creating job and career opportunities for young people	Help develop career training opportunities in the bus passenger industry – *number of opportunities pursued:*	Negotiate understanding with union as to how youth employment program will be administered and develop program option list	Developed 2 Gradworks Intern Proposals for 2005; Held discussions with SIIT regarding career partnerships
We work to protect our environment	Develop "green" fuel policy	Research alternatives and equipment needs	A pilot project involving biodiesel additives is being developed
	Newer, more fuel efficient coaches – average age in years:	6.0 - 6.5	5.9
We support development of the tourism industry in the province	Agreements/partner-ships with provincial attractions – *number of agreements:*	1-2	Negotiated agreement with Tourism Saskatchewan regarding partnership in major event
We support development of e-commerce in the province	Web page – *number of hits:*	30,000	51,031
	Point of Sales/Billing technology	Implement new invoicing system, including electronic presentment through website.	In progress

Balanced Scorecard

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Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better	82%
	Compared to Western Canadian industry average	Below average	2.6% below average
Our staff and partners are trained to provide good quality customer service	Customer service training – *number of staff trained*	50	CBA negotiations in progress
	Increase in customer satisfaction – survey	1%	8% decrease
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	Point of Sales/Billing technology	Implement new invoicing system including electronic presentment through website	In progress

We are a fiscally responsible company

Objective	Measure	2004 Target	2004 Actual
We live within the grants given us by our stakeholders	Operating grant	$3.4M	$3.7M
	Capital grant	$1.9M	$1.9M
We keep our operating costs as low as possible	Subsidy per mile	$1.06	$1.02
We look for non-traditional forms of revenue	Charter revenues – *percentage increase:*	5%	56%
	Other revenues – *percentage increase:*	2%	-6.1%
We ensure our equipment is right-sized by route	Average peak passenger volume per route as compared to the size of equipment used	74%	75%

We are a high-quality employer

Objective	Measure	2004 Target	2004 Actual
We support development of a representative workforce in the province	Percentage of new hires from designated groups	40%	60%
	Percentage: (ongoing until a representative workforce is achieved)		
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Collective Bargaining to include scales	CBA negotiations in progress
We work to promote a safe and satisfactory workplace	Employee satisfaction surveys	15% growth in employee satisfaction	5% increase in scope, 25% decrease out of scope
	Workplace safety records – *decrease in lost time accidents:*	5%	32%
We believe in career enhancing training for our employees	Safety training – *number of staff trained*	35	90
	Customer service training – *number of staff trained:*	50	CBA negotiations

We are accountable and transparent

Objective	Measure	2004 Target	2004 Actual
We meet or exceed all financial reporting requirements	CIC disclosure requirements for Annual Report	Meet or exceed	Met
	Reported comments from External and Provincial Auditors regarding our financial statements	Positive comments only	Clean audit report
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight (i.e.: Provincial Auditor)	No more than 1 per year	0
We take seriously what our customers say	Response time on customer complaints/ inquiries and Ministerial referrals	5 days	3.9 days
We take seriously what the community says	Interest group meetings – *number per year:*	4	7

Explanation of Significant Variances:

1. Customer satisfaction is down as surveys in 2004 factored in satisfaction with depots and agencies for the first time; and this brought down the overall average.

2. Other revenues are down primarily due to lower bus advertising sales and less foreign coach servicing.

3. Employee satisfaction – increase for in-scope employees, but to reach target indicates better communications required. Decrease for out-of-scope employee satisfaction is probably indicative of two factors – major changes in senior management during the year, and the small number of individuals involved means the numbers can take wide swings.

4. Operating grants above targets due to cash flow problems from two sources – revenues below projections and need to pay down line of credit borrowing early in the year that was necessitated by later than usual approval of 2004 grant money (due to changes made late in the year to the CIC Board, which were necessitated by the November General Election).

Balanced Scorecard

The Balanced Scorecard is an evolving document. The 2005 Balanced Scorecard presented by STC has been significantly redrawn to present the corporation's goals in a fashion which better reflects the overall aims of the corporation and its day-to-day activities, while keeping the needs of the shareholder paramount. The Balanced Scorecard for 2005 is:

We meet the needs of our customers

Objective	Measure	2005 Targets
Our customers are satisfied with the service they receive	Survey results	84% good or excellent rating
We ensure our customers enjoy a safe environment	At-fault injuries caused	0
Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better
	Compared to Western Canadian industry average	3.5% below average
Our staff and partners are trained to provide good quality customer service	Customer service training – *number of staff trained:*	40
	Increase in customer satisfaction – survey	1%
	Agency meetings - *number of agents met with:*	40
Our routes serve a significant portion of rural Saskatchewan	Minimum miles traveled	3.1 M
All of our customers deserve the most comfortable ride possible	Coaches equipped for wheelchair accessibility – *percentage of fleet:*	21.7%
We take seriously what our customers say	Response time on customer complaints/ inquiries and Ministerial referrals	5 days
We take seriously what the community says	Interest group meetings – *number per year:*	4

We are a good corporate citizen

Objective	Measure	2005 Targets
We support development of the Saskatchewan economy, particularly rural economy	Minimum number of agents	195
	Minimum number of communities served	275
	Buy Saskatchewan – *percentage of expenditures*	71%
We support creating job and career opportunities for youth and Aboriginal	Help develop career training opportunities in the bus passenger industry – *number of opportunities pursued*	1
We support development of e-commerce in the province	Web page – number of unique views	32,000
	Point of Sales/Billing technology	Develop and implement training program for front-line staff
We support development of a representative workforce in the province	Percentage of new hires from federally-designated groups	40%
	Percentage from each of four provincial target groups (% of new hires)	Women 25%; Aboriginal 15%; Visible minority 2%; Persons with disabilities 8%

We are a fiscally responsible and accountable company

Objective	Measure	2005 Targets
We live within the grants given us by our stakeholders	Operating grant	$4.1M
	Capital grant	$1.7M
We keep our operating costs as low as possible	Subsidy per mile	$1.23
We look for non-traditional forms of revenue	Charter revenues – *percentage increase*	5%
	Other revenues – *percentage increase*	2%
We ensure our equipment is right-sized by route	Average peak passenger volume per route as compared to the size of equipment used	76%
We meet or exceed all financial reporting requirements	CIC disclosure requirements for Annual Report	Meet or exceed
	Reported comments from External and Provincial Auditors regarding our financial statements	Positive comments only
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight (i.e. Provincial Auditor)	No more than 1 per year

We are a high-quality employer

Objective	Measure	2005 Targets
We are an employer of choice in Saskatchewan	Employee satisfaction surveys	5% growth in employee satisfaction
	Unsolicited resumes received	45
	Web site hits on employment section	Establish database
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Review and revise job evaluation plan
We work to promote a safe workplace	Workplace safety records – *decrease in lost time accidents*	5%
We believe in career enhancing training for our employees	Safety training – *number of staff trained*	35
	Customer service training – *number of staff trained*	40
We enjoy a positive, productive relationship with ATU Local 1374	Effective CBA in place	negotiations
	Number of grievances resolved before arbitration	95%
	Number of functioning joint management/union committees	7

We are improving and innovating

Objective	Measure	2005 Targets
We believe in growing our business operations within the public sector	Total annual contracts entered into with other public agencies	2
We believe in growing our business operations within the private sector	Total agreements/partnerships with provincial attractions; other transportation services and/or private businesses	2
We support building our future by protecting our environment	Develop "green" fuel policy	Research alternatives and equipment needs
	Newer, more fuel efficient coaches – *average age in years:*	7.0 - 7.5
Our Depots and Agencies are clean and inviting premises	Yearly customer surveys on service satisfaction	75%
	Yearly customer surveys on cleanliness	75%

Balanced Scorecard

We are a fiscally responsible and accountable company

Objective	Measure	2005 Targets
We live within the grants given us by our shareholders	Operating grant	$1.1M
	Capital grant	$1.7M
We keep our operating costs as low as possible	Subsidy per mile	$1.23
We look for non-traditional forms of revenue	Charter revenues – percentage increase	5%
	Other revenues – percentage increase	2%
We ensure our equipment is right-sized by route	Average peak passenger volume per route as compared to the size of equipment used	76%
We meet or exceed financial reporting requirements	CIC benchmark requirements for annual report	Meet or exceed
	Reported comments from External and Provincial Auditor regarding our financial statements	Positive comments only
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight (i.e. Provincial Auditor)	No more than 1 per year

We are a high-quality employer

Objective	Measure	2005 Targets
We are an employer of choice in Saskatchewan	Employee satisfaction surveys	5% growth in employee satisfaction
	Unscheduled absence hours/year	48
	Years service per employment action	Establish database
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Review and revise job evaluation plan
We work to promote a safe workplace	Workplace safety records – decrease in lost time accidents	5%
We believe in career enhancing training for our employees	Safety training – *number of staff trained*	35
	Customer service training – *number of staff trained*	40
We enjoy a positive, productive relationship with ATU Local 1374	Effective CBA in place	negotiations
	Number of grievances received before arbitration	36
	Number of functional and management committees	7

We are improving and innovating

Objective	Measure	2005 Targets
We believe in growing our business operations within the public sector	Total service contracts entered into with other public agencies	2
We believe in growing our business operations within the private sector	Total agreements/partnerships with provincial attractions, other transportation services and/or private businesses	2
We support building our future by protecting our environment	Develop "green" fuel policy	Research alternatives and equipment needs
	Newer, more fuel efficient vessels – average age in years	7.0 - 7.5
Our Depots and Agencies are clean and inviting premises	Yearly customer surveys on service satisfaction	75%
	Yearly customer surveys on cleanliness	75%

Passages

In the year 2004, the STC family got smaller. Some of these passages were a time of celebration, and some were a time of mourning. But all took a little piece of the company with them.

Retirees:

Doreen Howatt, Senior Accounting Clerk, Regina, retired April 14/04 with 24 years of service.

Matt Haniak, Express Services Attendant 1, Regina, retired October 15/04 with 30 years of service.

Ken Grummett, Mechanic 1, Saskatoon, retired August 17/04 with 29 years of service.

Al Miller, Customer Service Co-ordinator, Saskatoon retired November 5/04 with 28 years of service.

Garry Rudolph, Motor Coach Operator, Saskatoon, retired November 30/04 with 28 years of service.

Doug Bowie, Motor Coach Operator, Saskatoon, retired December 15/04 with 27 years of service.

In Memoriam:

Matt Haniak, an Express Services Attendant 1 in Regina, passed away January 11, 2005, only months after his retirement from the company. Matt was 60 at the time of his passing.

Corporate Management

Saskatchewan Transportation Company

Head Office:
2041 Hamilton Street
Regina, Saskatchewan
S4P 2E2
Phone: (306) 787-3347

www.stcbus.com

Senior Management

President and CEO	**Ray Clayton**
Senior Director Finance and Administration	**Shawn Grice**
Senior Director Customer Services and Operations	**Nial Kuyek**
Director Human Resources and Labour Relations	**Ingrid Reid**
Director Communications and Strategic Planning	**John Millar**
A/Director Information Systems	**Richard Baker**
Manager Business Development and Operations (South)	**Dean Madsen**
Manager Operations (North)	**Harold Matthies**
Manager Maintenance	**Carl Clark**

If you would like additional copies of this report, please contact Janet Abells at (306) 787-3412, or e-mail jabells@stcbus.com.

This document can be viewed at the STC website: www.stcbus.com

Saskatchewan Transportation Company

Financial Statements

December 31, 2004

Management's Responsibility for Financial Reporting

Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Company prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Company maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

Meyers Norris Penny LLP, the Company's external auditors, have examined the December 31, 2004 financial statements, and their report follows.

The Board of Directors of Saskatchewan Transportation Company has examined and approved the statements.

On behalf of the Company,

Ray Clayton
President & CEO

Shawn Grice
Senior Director
Finance & Administration

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Transportation Company** as at December 31, 2004 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Transportation Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan

February 4, 2005

Meyers Norris Penny LLP

Chartered Accountants

Statement of Financial Position

As at December 31

	2004	2003
	(Thousands of Dollars)	
ASSETS		
Current		
Cash	$ 1,155	$ 882
Accounts receivable	1,499	1,315
Inventories	326	322
Prepaid expenses	151	130
	3,131	2,649
Property, plant and equipment *[note 5]*	16,172	15,629
	$ 19,303	$ 18,278
LIABILITIES AND PROVINCE'S EQUITY		
Current		
Demand operating loan *[note 6]*	$ –	$ 300
Accounts payable and accrued liabilities	2,460	2,003
	2,460	2,303
Deferred capital grant *[note 7]*	8,495	7,573
Province of Saskatchewan's Equity		
Retained earnings	8,348	8,402
	$ 19,303	$ 18,278

See accompanying notes

On behalf of the Board

Janet Folk
Director

Director

Statement of Operations and Retained Earnings

Year ended December 31

	2004	2003
	(Thousands of Dollars)	
REVENUE		
Express services	$ 6,403	$ 6,577
Passenger services	6,682	6,408
Other revenues	561	597
Loss on disposal of property, plant and equipment	–	(2)
	13,646	13,580
EXPENSES		
Operating	14,187	13,781
Administration	2,481	2,649
Amortization	1,710	1,728
	18,378	18,158
Loss before the following	(4,732)	(4,578)
Operating grant *[note 8]*	3,700	1,600
Capital grant *[note 7]*	978	898
Net loss	(54)	(2,080)
Retained earnings, beginning of year	8,402	10,482
Retained earnings, end of year	$ 8,348	$ 8,402

See accompanying notes

Statement of Cash Flows

Year ended December 31

	2004	2003
	(Thousands of Dollars)	
OPERATING ACTIVITIES		
Net loss	$ (54)	$ (2,080)
Items not involving cash:		
Amortization	1,710	1,728
Loss on disposal of property, plant and equipment	–	2
Recognition of capital grant	(978)	(898)
Net change in non-cash working capital *(note 10)*	248	(83)
Cash provided by (used in) operating activities	926	(1,331)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(2,275)	(2,297)
Proceeds on disposal of property, plant and equipment	22	24
Cash used in investing activities	(2,253)	(2,273)
FINANCING ACTIVITIES		
Capital grant received	1,900	1,900
Demand loan (repayments) proceeds	(300)	300
Cash provided by financing activities	1,600	2,200
Increase (decrease) in cash	273	(1,404)
Cash, beginning of year	882	2,286
Cash, end of year	$ 1,155	$ 882

See accompanying notes

Notes to Financial Statements

Year ended December 31, 2004

1. STATUS OF THE COMPANY

The Saskatchewan Transportation Company (STC, the Company) was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. The Company's powers, duties and conditions were affirmed in 1993 by Order in Council #5. The Company is continued under *The Crown Corporations Act, 1993*.

The accounts of the Company are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan (CIC).

The Company is a Provincial Crown Corporation and therefore not subject to federal or provincial income tax.

2. OPERATIONS AND FINANCING

In 2000, STC received cabinet direction with regard to its mandate. Under that direction, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. STC will ensure that its commitment to servicing the province is kept uppermost in all of its planning even though the Company has been given flexibility to adjust service delivery levels to keep the Company strong.

STC continues to be dependent upon CIC for its funding as a result of the non-commercial routes operated by the Company. By way of Orders in Council #15/2004, #16/2004, and #721/2004 the Company was authorized to obtain grant funding up to $5,900 thousand (2003 - $3,500 thousand, Orders in Council #901/2002 and #902/2002) in total for both capital and operating requirements. During the year, the Company requested and received $5,600 thousand of the $5,900 thousand authorized (2003 - $3,500 thousand and $3,500 thousand respectively).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant policies are as follows:

Inventories

Inventories of vehicle parts and supplies are stated at the lower of average cost and replacement cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Assets held for sale are segregated and no longer amortized and are recorded at carrying amounts that approximates fair value. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance, such as engine and drivetrain repairs, mechanical repairs and preventative maintenance are expensed as incurred.

Operating Grant Revenue

Operating grants from CIC are recognized as revenue when received.

Notes to Financial Statements

Year ended December 31, 2004

Capital Grant Revenue

Capital grants are deferred as received and are recognized as revenue over the life of the asset. The Company recognizes a portion of the capital grant as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

Revenue Recognition

Passenger and freight transportation revenue is generally recognized upon the completion of service. Interline passenger and freight transportation service is treated as being complete when the passenger or parcel is turned over to the connecting carrier.

Other revenues, including charter, space leasing, bus advertising, vending, and maintenance, are recognized when earned.

Amortization

Amortization is provided from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of property, plant and equipment over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Buildings	10 to 40 years
Vehicles	5 to 15 years
Other equipment	3 to 10 years

Management Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of Property, Plant and Equipment. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

4. FINANCIAL INSTRUMENTS

Fair Value

The Company as part of its operations carries a number of financial instruments which includes cash, accounts receivable, demand operating loan and accounts payable and accrued liabilities. The carrying amount of the Company's financial instruments approximates their fair value due to the short-term maturities of these items.

Credit Risk

The Company is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance. The Company monitors the credit risk and credit rating of customers on a regular basis. The maximum credit risk is the fair value of the accounts receivable.

Notes to Financial Statements

Year ended December 31, 2004

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
		(Thousands of Dollars)		
Land	$ 1,902	$ –	$ 1,902	$ 1,902
Buildings	10,661	5,905	4,756	4,844
Vehicles	14,564	5,929	8,635	7,936
Other Equipment	5,437	4,646	791	947
	$ 32,564	$ 16,480	$ 16,084	$ 15,629
Assets held for sale	803	715	88	–
	$ 33,367	$ 17,195	$ 16,172	$ 15,629

At December 31, 2004, the Company has assets that are no longer in service and are held for sale. The carrying amount of these assets approximates fair value and has been segregated above.

6. DEMAND OPERATING LOAN

The demand operating loan is unsecured, repayable on demand, and bears interest at Prime. At December 31, 2004 the balance was $nil (2003 - $300 thousand).

7. CAPITAL GRANT

Order in Council #15/2004 authorizes the Company to obtain grant funding up to $1,900 thousand for capital requirements in 2004. During the year, the Company obtained $1,900 thousand (2003 - $1,900 thousand, Order in Council #901/2002) from CIC.

Deferred Capital Grant consists of the following:

	2004	2003
	(Thousands of Dollars)	
Deferred capital grant, beginning of year	$ 7,573	$ 6,571
Capital grant received	1,900	1,900
Capital grant revenue recognized	(978)	(898)
	$ 8,495	$ 7,573

Contained in STC's cash balance at year end are capital grant funds of approximately $11 thousand (2003 - $234 thousand) reserved for payment of capital accounts payable and future capital purchases.

Notes to Financial Statements

Year ended December 31, 2004

8. OPERATING GRANT

Order in Council #16/2004 and #721/2004 authorizes the Company to obtain grant funding up to $4,000 thousand for operating requirements in 2004. During the year, the Company obtained $3,700 thousand (2003 - $1,600 thousand, Order in Council #902/2002) from CIC.

9. PENSION PLANS

The Company participates in two pension plans. One is a defined benefit plan established pursuant to the Public Service Superannuation Act and administered by the Public Employees Benefits Agency. The Company's contributions to this plan which were expensed during 2004 were $52 thousand (2003 - $59 thousand). The other is the Capital Pension Plan which is a defined contribution plan administered by CIC. The Company's contributions to this plan which were expensed in 2004 were $438 thousand (2003 - $439 thousand). All eligible employees hired after September 1, 1980 are participants in the defined contribution plan.

The Company's financial obligation to each plan is limited to making regular payments to match the amounts contributed by the employees for current service.

10. NET CHANGE IN NON-CASH WORKING CAPITAL

	2004	2003
	(Thousands of Dollars)	
Decrease (increase) in:		
Accounts receivable	$ (184)	$ 163
Inventories	(4)	(8)
Prepaid expenses	(21)	28
Increase (decrease) in:		
Accounts payable and accrued liabilities	457	(266)
	$ 248	$ (83)

Notes to Financial Statements

Year ended December 31, 2004

11. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies and boards and commissions related to the Company by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2004	2003
	(Thousands of Dollars)	
Accounts receivable	$ 155	$ 116
Accounts payable	108	178
Express revenues	486	519
Other transportation services revenues	486	386
Operating and administration expenses	1,478	1,450

In addition, the Company pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

12. PURCHASE COMMITMENT

During 2004 the Company committed to purchase three used coaches for approximately $320 thousand. A $15 thousand deposit has been made on this commitment with the remaining amount to be paid in 2005.

STC
The Bus Company